Republic Services Inc. (RSG)

Updated August 9th, 2020 by Nikolaos Sismanis

Key Metrics

Current Price:	$91	**5 Year CAGR Estimate:**	5.5%	**Market Cap:**	$28.8B
Fair Value Price:	$81	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	09/30/2020
% Fair Value:	112%	**5 Year Valuation Multiple Estimate:**	-2.2%	**Dividend Payment Date:**	10/15/2020
Dividend Yield:	1.9%	**5 Year Price Target**	$108	**Years Of Dividend Growth:**	11
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	5%

Overview & Current Events

Republic Services, Inc. is an industry leader and national provider of recycling and non-hazardous solid waste disposal, operating in 41 states. The company holds around 20% market share of the landfill volume in the United States and is only behind Waste Management, which holds around 26%. Moreover, by operating in an industry with increasing consolidation, its position should improve further. The trash-collection industry benefits from predictable cash flows because of its non-cyclical business model. As a result, Republic Services has been able to return capital to its shareholders consistently. While the dividend has been growing for the past ten years, the company has never actually cut its distributions since its first one in 2004. The $28.8 billion market cap firm has generated over $10.2 billion in revenues on a trailing twelve months basis, which is the highest in its history.

On August 6th, 2020, Republic Services reported its Q2 results for the period ending June 30th, 2020. For the quarter, EPS was $0.71, 3% higher than Q2 2019, while revenues declined by around 6.1% Y-o-Y to reach $2.45 billion. The decline in sales was due to customers temporarily suspending or reducing service levels. Volume decreased by 7.4% versus the prior year. Still, the company expanded adjusted EBITDA margin by 170 basis points (1.7%), increased adjusted earnings, and delivered double-digit growth in adjusted free cash flow. Further, the management expects to generate $1.1 billion to $1.175 billion of adjusted free cash flow for the full year, suggesting an increase of at least 10%, compared to FY2019.

Finally, the company increased its quarterly dividend by 5% to $0.425, bringing the annual amount to $1.70.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$1.32	$1.57	$1.56	$1.63	$1.54	$2.14	$1.79	$3.79	$3.17	$3.34	***$3.24***	***$4.34***
DPS	$0.78	$0.84	$0.91	$0.99	$1.08	$1.16	$1.24	$1.33	$1.44	$1.56	***$1.70***	***$2.17***
Shares[1]	383	376	366.9	362.1	356.7	350	343	337.1	326.9	321.1	***320.4***	***280.0***

EPS CAGR over the past decade has been around 11%, while DPS CAGR over the same period has been about 8%. We retain our EPS growth estimate to 6%, due to consistent profitability, but lower our DPS growth estimates, to reflect management's current DPS growth slowdown, as the company reserves further liquidity.

Since 2010, the company has been consistent with its repurchasing program, having retired around 17% of the outstanding shares. Management suspended buybacks during the quarter, as it navigates the current economic environment cautiously. The remaining authorized purchase capacity under its previous repurchase program is $605.8 million and is subject to resumption based on gradual economic recovery.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	21.6	17.6	15.2	22.5	18.1	21.2	25.0	27.1	16.6	26.8	***28.0***	***25.0***
Avg. Yld.	2.6%	2.8%	3.3%	2.9%	2.7%	2.8%	3.0%	2.0%	2.0%	1.8%	***1.9%***	***2.0%***

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[1] Share count is in millions.

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Over the past few months, investors have been seeking stable and reliable cash flows, such as those of RSG, to battle uncertainty. As a result, shares have appreciated considerably, trading on the higher ranger of their usual valuation, at a P/E of 28.0. The stock is thus offering a moderate yield of 1.9%. Considering the company's robust profitability generation, increased free cash flow guidance, and decent dividend raise, we uplift our medium-term valuation multiple to 25. With healthy financials and consistent dividend growth, the company should attract further investor interest, hence the multiple expansion.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	59.0%	53.50%	58.3%	60.7%	70.1%	54.2%	69.2%	35.0%	45.4%	46.7%	52.4%	50.0%

The company's large market share is clear evidence of competitive advantage. With the three largest operators having captured more than 75% of the industry and continuous consolidation, an entry in the market by new competitors is almost impossible. The long-term contracts tied to annual rate increases, as well as Republic Services' robust customer base (which includes municipalities), allow it to operate in an extremely low volatility environment. During the quarter, the company decreased its long-term debt position by $300 million, to $8.7 billion while the ongoing interest payments are covered by around 3.7 the company's operating cash flows.

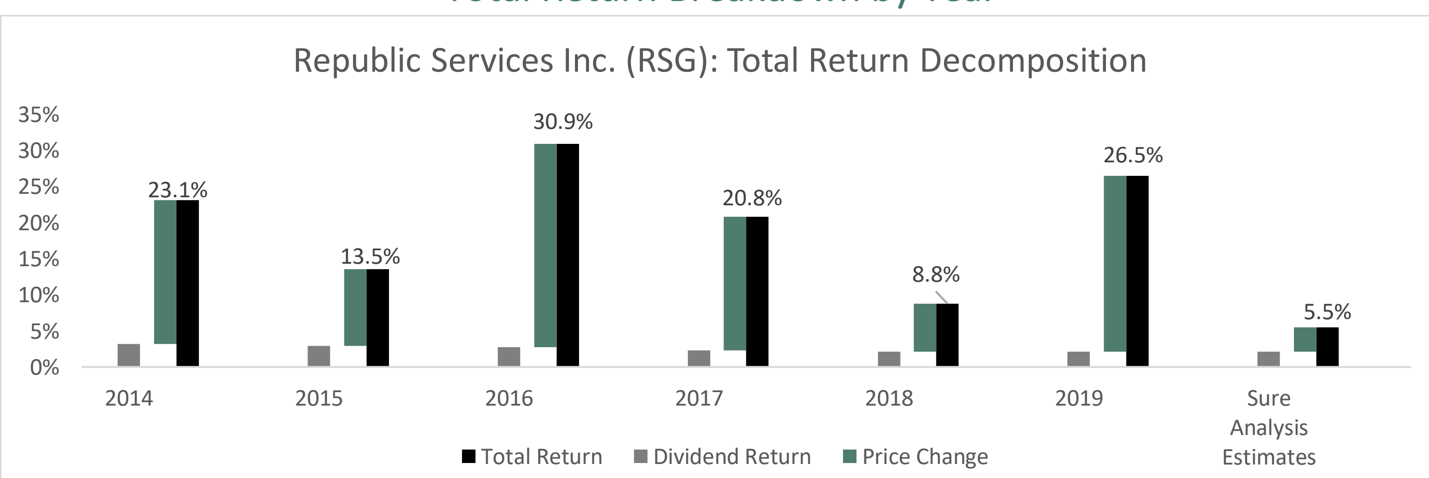
Further, the dividend remains very well-covered, at just over 52%, despite the latest DPS increase.

In FY2008, during the Great Financial Crisis, the company increased its revenues and also merged with Allied Waste Services to strengthen its market position. If another recession occurs, the company has enough cash to repeat such strategic acquisitions, continue its distributions, and even buy back shares. During the quarter, liquidity increased to $2.3 billion from $1.9 billion in Q1, suggesting heavy firepower is available to be deployed amid potential opportunities.

Final Thoughts & Recommendation

Republic Services is a safe investment option considering the company's stability, robust cash flows, and a consistent return of capital to shareholders. In times of uncertainty and wild market swings, the company should shine, featuring its quality, low-volatility characteristics. However, due to its current above-average historical P/E ratio, shares may be slightly overvalued. Despite the decent dividend growth and potential for capital gains, we believe that the stock's total return potential may be limited somewhat due to a valuation contraction. We expect total annualized returns of around 5.5% in the medium-term.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	$8,107	$8,193	$8,118	$8,417	$8,803	$9,115	$9,388	$10,042	$10,041	$10,299
Gross Profit	$3,342	$3,328	$3,113	$3,183	$3,160	$3,596	$3,624	$3,827	$3,891	$4,001
Gross Margin	41.2%	40.6%	38.3%	37.8%	35.9%	39.5%	38.6%	38.1%	38.8%	38.8%
SG&A Exp.	$834	$804	$827	$995	$898	$965	$955	$1,059	$1,013	$1,042
Operating Profit	$1,522	$1,531	$1,283	$1,176	$1,217	$1,519	$1,578	$1,652	$1,729	$1,803
Operating Margin	18.8%	18.7%	15.8%	14.0%	13.8%	16.7%	16.8%	16.5%	17.2%	17.5%
Net Profit	$507	$589	$572	$589	$548	$750	$613	$1,278	$1,037	$1,073
Net Margin	6.2%	7.2%	7.0%	7.0%	6.2%	8.2%	6.5%	12.7%	10.3%	10.4%
Free Cash Flow	$639	$830	$610	$667	$667	$734	$920	$921	$1,171	$1,145
Income Tax	$370	$317	$252	$262	$337	$446	$353	$3	$283	$222

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	19462	19552	19617	19949	20094	20536	20630	21147	21617	22684
Cash & Equivalents	$88	$66	$68	$213	$75	$32	$68	$83	$71	$47
Accounts Receivable	$829	$826	$837	$891	$930	$963	$995	$1,106	$1,103	$1,126
Inventories	$31	$35	$35	$38	$36	$39	$44	$51	$53	$57
Goodwill & Int. Ass.	11107	11057	11049	11040	11130	11392	11346	11457	11507	11767
Total Liabilities	11613	11868	11911	12043	12346	12759	12936	13186	13688	14563
Accounts Payable	$607	$564	$475	$511	$527	$577	$554	$598	$762	$778
Long-Term Debt	$6,744	$6,922	$7,071	$7,018	$7,061	$7,533	$7,659	$8,187	$8,338	$8,689
Shareholder's Equity	$7,847	$7,681	$7,703	$7,904	$7,745	$7,774	$7,691	$7,959	$7,927	$8,118
D/E Ratio	0.9	0.9	0.9	0.9	0.9	1.0	1.0	1.0	1.1	1.1

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	2.6%	3.0%	2.9%	3.0%	2.7%	3.7%	3.0%	6.1%	4.8%	4.8%
Return on Equity	6.6%	7.6%	7.4%	7.5%	7.0%	9.7%	7.9%	16.3%	13.1%	13.4%
ROIC	3.5%	4.0%	3.9%	4.0%	3.7%	5.0%	4.0%	8.1%	6.4%	6.5%
Shares Out.	385	378	368	363	358	351	344	339	328	322
Revenue/Share	$21.05	$21.70	$22.06	$23.16	$24.58	$25.94	$27.26	$29.62	$30.58	$31.99
FCF/Share	$1.66	$2.20	$1.66	$1.84	$1.86	$2.09	$2.67	$2.72	$3.57	$3.56

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.